

**Statement before the House Foreign Affairs Committee,
Subcommittee on the Middle East and South Asia**

***“AMERICA AND THE IRANIAN POLITICAL REFORM MOVEMENT:
FIRST DO NO HARM”***

A Statement by

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Chairman Ackerman, Ranking Member Burton and distinguished members of the committee. I am honored to have been invited by the Committee to testify today about "America and the Iranian Political Reform Movement." I will be testifying today in my capacity as a Distinguished Scholar and Senior Advisor at the Center for Strategic and International Studies and a Professor of Global Business at the Smeal College of Business at Pennsylvania State University.

The latest events in Iran (the death of Grand Ayatollah Montazeri, whom many considered as the reformists' spiritual leader; the unrest and brutal behavior of the regime's thugs; the show trials; the firing and black listing of thousands of reformists; and the revelations about rape, torture and executions) are symptoms of a tectonic shift in Iran's political environment. Despite the repeated warnings by the regime's leaders, the revolutionary guards, the Basij, and the police that demonstrators would be mercilessly handled, sternly confronted and arrested, the reformist and opposition demonstrations have continued and are more daring than even during the post June elections. The longer these demonstrations go on in the face of hardliner demands to crack down, the clearer it becomes that the focus of the opposition is shifting from Ahmadinejad to the system itself and the Supreme Leader Khamenei. The chants of "Death to the Dictator", the tearing and stomping on images of Khamenei, and the demands for justice clearly show that the protest movement is now questioning the legitimacy of the Islamic Republic.

The regime and Khamenei's control are not endangered--yet. The Revolutionary Guards and the paramilitary Basij have been ordered to suppress the demonstrations by force in the most brutal manner. The shootings and killing of demonstrators, the massive arrests that have followed, and the casualties that include Moussavi's nephew are aimed at suppressing the reformist movement. Since June of 2009 thousands of reformists have been fired from their jobs. Last Thursday two demonstrators were hung and nine have been sentenced to death. Last week, the two leading opposition leaders made limited conciliatory statements

toward Khamenei, but also called for major demonstrations on February 11, the anniversary of the Islamic republic. Therefore, it is questionable whether the movement will quietly dissipate. No one accurately predicted that millions would take to the streets following the June election and no one can tell whether the opposition will simmer below the surface waiting for another day or erupt into a full-scale uprising. The events may just as likely lead to a critical standoff between the regime and its opposition. What will be the outcome is difficult to gauge at this point.

In addition to this internal turmoil the Iranian regime faces other internal and external challenges that define its relationship with the Iranian public. The nuclear negotiation is the critical issue from the perspective of the US and its allies, but is not high on the list of issues from Iran's point of view. Iran faces economic difficulties ranging from high unemployment, the lack of foreign and even domestic investments, the need for technology to develop its industries (particularly the oil and gas sector), Afghan illegal immigration issues, the major problem of narcotics (15% of Afghan Opium is used in Iran), and above all assurances that the West does not seek regime change. At the same time that Iran wants to play a significant role in the region both economically and strategically, its regime faces challenges from both the cleric and the secular power centers. It is becoming clear that the Revolutionary Guards and the Basij have been and will continue to be relied on to keep the population under control. The price the regime has paid and will continue to pay is a further para-militarization of the economy.

The Iranian economy is in shambles and will likely continue to deteriorate as oil prices hover around 70 dollars a barrel. The economy's burdensome legacy and economic mismanagement has brought about double-digit inflation, unemployment and underemployment of about 30%, as well as price distortions due to extensive subsidies and supports. The over-valued national currency is responsible for the country's substantial capital flight, a dramatic decline in the country's foreign exchange reserves, and an enormous level of government debt. Foreign and domestic investments have evaporated both due to sanctions but also because of the difficulty to do business in such a corrupt environment. Furthermore, the quality of the management of the economy and the administration is declining. Nepotism, the growing role of the paramilitary in all aspects of the economy and the lack of any meritocracy has resulted in poor economic performance and shortages of critical social amenities from housing to health care. Rising poverty and a widening gap between the privileged and connected rich and the population at large is also

of great concern. Finally we see a regime that is becoming globally isolated and economically more and more desperate. The disastrous economic performance is primarily due to the Iranian government's own mismanagement and corruption while sanctions have also played a significant role.

Some sanctions have successfully robbed the regime of capabilities and resources. Most successfully, sanctions on direct investment have been effective in substantially eliminating foreign investment by US and western companies. However, trade sanctions have unintentionally created a thriving black market and opened doors for U.S. competitors. Trade has been rerouted through third countries such as Dubai and products from countries such as China have supplanted western goods. China and Dubai are now the top two trading partners of Iran. Restricted products are often smuggled into the country by paying bribes to revolutionary guard entities that control the flow of goods into the country.

Foreign direct investment has been eliminated substantially, but the result has been that large projects have been passed on to companies with limited capability owned by the revolutionary guards with the assistance of third country organizations that also have limited capability. The Tehran Metro, the gas pipeline to Pakistan, and the development of the gas field at the border with Qatar are such examples. Furthermore, these sanctions have in no way altered the regime's intentions. Often these sanction or the threat of sanction have resulted in the regime taking steps to increase prices, reduce subsidies (helping the regime's budgetary constraints) and blame the US. Tracking financial flows that belong to the revolutionary guard and senior government officials on the other hand have had some success and is probably an effective way to put pressure on the regime without hurting the population at large.

In my opinion, our policy must support a vision of an Iran that fits well within the greater Middle East and as a stakeholder in the international community. To achieve this we need to be reinforcing American ideals and leverages our greatest supporters. I am talking about the vast number of Iranians who have courageously stood up against the regime and demanded that the Islamic Republic hear their voices in the face of unprecedented brutality. They demand freedom and independence. They believe that Iran has achieved independence from foreign intervention but not freedom from government oppression. This is the demand of the Iranian people. This honorable and just cause is what protestors demand and what Iranians are willing to die for. The

conventional options of military engagement or further sanctions fail to recognize that the future lies with the Iranian people and not the Iranian regime. These options also are contrary to the concept of independence, a critical demand in the Iranian mind. US policy should support freedom without appearing to reduce peoples' sense of Iranian independence.

The Iranian public is pro America. Numerous polls have shown that the great majority of Iranians like America and Americans. Many Iranians have relatives in the US who are prospering in our land of opportunity. The Iranian public knows this well. A recent poll just released by World Public Opinion indicates that 63 percent of Iranians say they favor restoration of diplomatic ties with the US. Only 27 percent are opposed. Given that the telephone poll sample used fixed lines, this is an amazing number as Iranians normally fear expressing positions that counter the regime, especially on tapped fixed line phones. Also, the great majority of the Iranian population are 15 to 30 year old technologically capable, educated, cell phone users that face a much larger unemployment rate and are dissatisfied with social restrictions. However, attitudes towards America, while very positive, have eroded slowly over time. The polls also indicate that the majority are fearful of and mistrust the US government. The fear is partially due to a potential military attack or expanded sanctions.

If either of these two fears become reality they will prevent Iran from evolving into a stakeholder in the international community. Military action would likely galvanize Iranian society against the attackers; delay the nuclear program for a limited time period, while encouraging hardliners to argue for the development of nuclear weapon capability. It will also give the regime an excuse to expand its brutality against any potential opposition. Further trade sanctions will also strengthen the hand and further enrich the pockets of the revolutionary guards and regime hard liners while allowing the US to take the blame for the regime's own incompetence and corrupt economic policies.

Two examples bring home the sanctions issue. While food and medicine do not face sanctions, food prices have increased dramatically. In fact, the regime cannot blame sanctions for shortages and dramatic price increases on the U.S. Conversely, repeated civilian air traffic accidents in Iran have successfully been blamed on US and European sanctions. It is reported that Iranians traveling by plane often inquire about the model of the plane and would

reschedule to fly on aging Boeing and Airbus equipment rather than Russian planes. In fact, the government declared it illegal to divulge the type of plane on flights to the traveler. In the minds of Iranian travelers it is difficult to understand why the traveling Iranian public is the target of sanctions. Recent discussion on the import of gasoline is another case in point. The simple mention of sanctions over a year ago resulted in the Iranian regime instituting first coupons and then smart cards that restrict gasoline purchases at subsidized prices, which are close to 40 cents per gallon. The allocation for private cars has been recently reduced further from 100 liters per month to 80 liters (approximately 20 gallons/month). Additional purchases are allowed at a price closer to \$1.60 per gallon. This, in essence has increased the price to users and thus helped reduce the substantial budget constraints of the government by billions of dollars. At the same time that the public is asked to pay the higher gasoline price for purchases exceeding 20 gallons a month, the revolutionary guards have smart cards whose large allocations may be sold in the black market. Further sanctions are unlikely to limit gasoline imports, as other refineries are likely to step in and offer gasoline. The Iranian regime will of course use this as an excuse to further reduce subsidized gasoline prices and reduce their budget deficit.

The success of sanctions is predicated on the assumption that we will weaken the regime by these sanctions and that the regime desires western imports and investments. These assumptions are incorrect. Sanctions play in the hand of the regime, deprive the Iranian public of economic growth, and reduce the role of the private sector (particularly small and medium companies) at the expense of the revolutionary guards and the paramilitary establishment. Sanctions strengthen the regime's hand against the public and the private sector and play into its fear of international interaction with the Iranian public. Its efforts to seal the nation post election by restricting the flow of information via the internet, crackdown on cell phones, text messaging and twittering make it clear that the regime is terrified of economic, informational, and social interaction with the West.

A more effective approach would be for the international community to punish revolutionary guard entities via limiting transfers while promoting information flows and economic activities with the private sector. This is a much more nuanced strategy that targets the paramilitary but protects the public. A more effective strategy would:

(1) Global media outlets should continue and expand broadcasts highlighting the mismanagement and corruption existing in the system. Ahmadinejad's unexpected success in the previous election was successful because he was able to project himself as an honest, pious person in contrast to the rich and corrupt opponents. Even in the most recent election, during debates on Iran TV, Ahmadinejad continued his attack on the corrupt opponents. Except this time it was a stretch for the public to believe his hands are clean.

(2) The international community should broadcast Iran's economic performance compared to neighboring countries. Mismanagement and corruption has hurt Iran's economy and people. Iran and Turkey had comparable economies but in the past decade Iran, despite its oil and gas reserves and revenue, has seen its per capita income decline and its foreign and domestic investments evaporate. Iranians travel to Turkey without much difficulty and can see the relative improvement of Turks' standard of living compared to their own. Iran's economic performance is miserable relative not only to Turkey but also to neighbors south of the Persian Gulf and in the Caspian region. Azeris north of the border have improved their livelihood much more than Iranian Azeris. This is not due to sanctions but the Iranian regimes incompetence, corruption, nepotism and disregard of meritocracy.

(3) The international community should continue broadcasting the brutality that the regime and the paramilitary are using against their own people. Highlight the number of highly regarded thought leaders and experts who have been fired and black listed. Discuss the devastation brought upon citizens whose sole sin has been to question the behavior and performance of the regime.

(4) Expose how the revolutionary guard senior leaders have pilfered from the Iranian economy and where they are sending and hiding their funds. Discuss the rapid erosion in the foreign exchange reserves of the nation and ask where these funds disappeared.

(5) Expose some of the houses and real estate that the corrupt Iranian leaders have been buying overseas and highlight their residences in Tehran and other cities.

These first five points should be repeatedly communicated via various channels to the Iranian public. Global media outlets, conferences, interviews, and discussions can broadcast these points continuously.

(6) The international community must continue to target and confiscate the revolutionary guard's investments and international accounts and fund transfers. Target the revolutionary guard and regime leaders' money. The US Treasury efforts in this vein should be redoubled and supplemented.

(7) While targeting the revolutionary guard and regime leaders, and continuing strict sanctions on nuclear technology, remove sanctions that target the Iranian people. Sanction that prevents civilian airplanes from being repaired and maintained seems heartless. On the other hand we should put sanctions on companies that provide electronic gear that allow the regime to target protestors.

(8) Iranian good will towards America and Americans is due to the number of Iranian educated and trained here over many decades. America also has allowed many Iranians to immigrate here over the years. Removing restrictions on travel to the US and allowing Iranians to once again study in US universities would be a clear indication of our interest and support for the Iranian public. Opening a consulate and making visas more available reinforces the fact that we are with the people of Iran. A strategy that articulates we support the people but not the regime is imperative given the situation in Iran.

(9) Consider allowing US and Western companies to invest with the Iranian private sector in areas that are beneficial of the public and not the revolutionary guards. Commercial interaction and the development of a prosperous middle class are the biggest risks to totalitarian regimes.

Having made these suggestions, I wish to reiterate it is the Iranian public that desires independence and demands freedom from oppression. While there is reason to be deeply concerned about the events in Iran, and all civilized persons should be alarmed at the brutality shown by the regime towards its people; it is not up to foreigners to dictate what needs to be done. We are not Iran's referee. The economic mismanagement, the lack of concern for human integrity, the brutal behavior of the regime at the end of the day is a matter for the Iranian people to address and resolve. What would be helpful to the

people of Iran is to inform the public and assure that the legitimate concerns and voices of the Iranian people are not drowned by the regime.

No doubt this is a more nuanced strategy but the goal is to promote relations with the Iranian public while making life difficult for the Iranian regime and Para military organizations. Strategic policy implementation should be measured by results. Three decades of sanctions have not been effective, have not changed the regimes behavior, and have resulted in erosion in the very positive Iranian public's attitude towards the US government. The people of Iran have a positive attitude towards the American people. Is it now time to consider an alternative strategy of intelligent engagement with the Iranian people.